

amount of \$500 in September of 1964 and another with a face amount of \$500 in October of 1964. Of the proceeds received in 1964 from the redemption of the bonds, \$1,000 plus interest, B shall exclude from his gross income \$500 (face amount of the retirement bonds, \$1,000, less \$500, one-half of the face amount, the latter being less than the aggregate of the unused amounts allowed as a deduction, \$250 allowable for the taxable year in which the bonds were redeemed plus \$400, the unused amounts allowed in prior taxable years, or \$650). The aggregate of the unused amounts allowed as a deduction shall be reduced by the amount so excluded (\$650 - \$500 = \$150). During the following year, B redeems another retirement bond with a face amount of \$500. Of the proceeds received from the redemption of such retirement bond, \$500 plus interest, B shall exclude from his gross income \$350 (face amount of the retirement bonds, \$500, less \$150, the aggregate of the unused amounts allowed as a deduction, the latter being less than one-half of the face amount of the bond, \$250). The aggregate of the unused amounts allowed as a deduction is reduced to zero (\$150 - \$150 = 0). Upon redemption of the remaining retirement bonds registered in B's name, B shall exclude from his gross income with respect to such proceeds an amount equal to the face amounts of the bonds redeemed.

Example (2). C, a self-employed individual, participated in a qualified bond purchase plan during the years 1963 through 1966. The plan purchased in his name retirement bonds in the aggregate of \$10,000. C deducted \$4,000 from his gross income for the four years (\$1,000 for each year) with respect to the purchase of such retirement bonds. C retired in December of 1966 and during the following year redeemed one retirement bond with a face amount of \$1,000. C excluded from his gross income \$500 of the proceeds of the bond. C died without redeeming any of the remaining retirement bonds registered in his name. The basis of each remaining retirement bond shall be determined by multiplying the face amount of each retirement bond by $\$5,500 \div \$9,000$. The numerator is the aggregate of the face amounts registered in C's name (as a self-employed individual) at his death, \$9,000, reduced by the aggregate of the unused amounts allowed as a deduction at his death, \$3,500 (amounts allowed as a deduction under section 405(c), \$4,000, reduced by the portion of the face amount of the retirement bond redeemed by C which was included in C's gross income, \$500), or \$5,500. The denominator is the face amount of the retirement bonds registered in his name as a self-employed individual at his death, \$9,000.

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§ 1.406-1 Treatment of certain employees of foreign subsidiaries as employees of the domestic corporation.

(a) *Scope*—(1) *General rule.* For purposes of applying the rules in part 1 of subchapter D of chapter 1 of subtitle A of the Code and the regulations thereunder with respect to a pension, profit-sharing, or stock bonus plan described in section 401(a), an annuity plan described in section 403(a), or a bond purchase plan described in section 405(a), of a domestic corporation, an individual who is a citizen of the United States and who is an employee of a foreign subsidiary (as defined in section 3121(1)(8) and the regulations thereunder) of such domestic corporation shall be treated as an employee of such domestic corporation if the requirements of paragraph (b) of this section are satisfied.

(2) *Cross-references.* For rules relating to nondiscrimination requirements and the determination of compensation, see paragraph (c) of this section. For rules under which termination of the status of an individual as an employee of the domestic corporation in certain instances will not be considered as separation from service for certain purposes, see paragraph (d) of this section. For rules regarding deductibility of contribution, see paragraph (e) of this section. For rules regarding treatment of such individual as an employee of the domestic corporation under related provisions, see paragraph (f) of this section.

(b) *Application of this section*—(1) *Requirements.* This section shall apply and the employee of the foreign subsidiary shall be treated as an employee of domestic corporation for the purposes set forth in paragraph (a)(1) of this section only if each of the following requirements is satisfied:

(i) The domestic corporation must have entered into an agreement under section 3121(l) to provide social security coverage which applies to the foreign subsidiary of which such individual is an employee and which has not been terminated under section 3121(l)(3) or (4).

(ii) The plan, referred to in paragraph (a)(1) of this section, must expressly provide for contributions or benefits